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ABSTRACT

Seven models representing the existing range of options of employer involvement in day care are described in this paper. The range of options are grouped into two categories: (1) company owned, operated, or subsidized child day care; and (2) employee assistance services, benefits, and policies. The models included in the first category are the company-owned on-site model, the off-site consortium model, the vendor program, and the voucher program. Included in the second category are the referral, the matching parents with providers model, and the sick child care model, as well as a number of personnel policies that are sensitive to the needs of working parents. The paper concludes with a list of existing employer-sponsored day care settings, an outline of the benefits and problems associated with employer-sponsored day care, and a brief indication of the federal and state tax incentives to those employers sponsoring day care programs. (Author/MP)

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Helping Working Parents:

Child Care Options For Business

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Many employers in North Carolina and across the country have adopted family-sensitive, family-supportive work policies. They have experimented successfully with company owned, operated or subsidized child day care, and with a variety of services, benefits and policies that help working parents.

In carefully reading the IRS code, these employers have learned that 100 percent of the cost of care for employees' children during working hours can be written off state and federal taxes as a deductible "ordinary and necessary business expense."

These employers understand the bottom line.

Seven different models of employee assistance are outlined here. The range of options can be grouped into two categories: (1) company owned, operated or subsidized child day care, and (2) employee assistance services, benefits and policies.

Classified in the first category are the following models:

- The Company-Owned, On-Site Model
- The Off-Site Consortium Model
- The Vendor Program
- The Voucher Program

Classified in the second category are:

- Referral: Matching Parents with Providers
- Sick Child Care
- Sensitive Personnel Policies

Following a description of each model is a list of existing settings, a discussion of benefits, problems, and federal and state tax incentives specific to the model.

It is not the intent of this publication to suggest which model is best. Rather, the individual company and its employees should weigh the relative merits of each approach and adopt the option or combination of options that will best satisfy their own needs.

Changes in the Labor Force

Employment is the key to economic well-being for families. The high cost of living and the increased costs of raising children have been important factors that have forced more American women into the labor force. Since 1940 in the United States, the number of working women has doubled. However, for the same period, the number of working mothers has increased TENFOLD.*

Eleven million more women will enter the U.S. labor force during the next decade and nearly half of the total female labor force population will have preschool children. By 1990 there will be over ten million American children who will need work-related child care.

North Carolina has a female labor force participation rate which is higher than any other Southern state and is among the highest in the nation. In 1975, 58.7 percent of this state's mothers with preschool children worked outside the home. The percent of working mothers with children under 18 was 65.3 percent.**

Corporate management, child care workers, employees, church members and researchers have become increasingly aware of these statistics. Parents who face the problem of meeting both job and family responsibilities have called on industry and government to help.

What Benefits Can a Company Expect?

In a 1977 *New York Times* article, the president of Stride-Rite said that he shuns the term "corporate social responsibility":

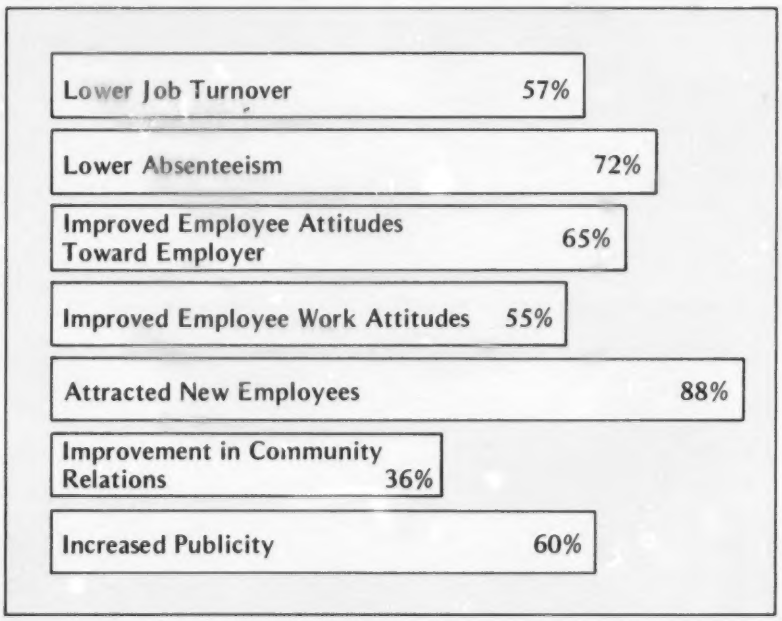
> "This shouldn't be construed as do-gooderism or tokenism because it's really self-serving. There's a need for corporate management to begin to appreciate the economics of something like quality day care. Fifteen percent of American households are below the poverty line and if business can get them contributing to the gross national product, business will benefit."

The chart below shows seven employer benefits identified in a 1978 survey of 58 organizations sponsoring day care programs.***

In North Carolina, company reports support these survey findings and indicate that provision of child care is indeed sound business practice. Recruitment of qualified nursing personnel became easier at three North Carolina hospitals which set up on-site day care facilities.

Participating companies report improved employee attitudes toward the employer and improved employee work attitudes. Parents are deeply appreciative of the help they receive in meeting the costs of work-related care, in locating appropriate care, in simplified commuting schedules, in more flexible work hours. They quickly translate their peace of mind into greater productivity on the job.

It is the employer who frequently bears the burden of the shortage of child care services in the community. Family demands often interfere with job performance. Tardiness, absenteeism and high turnover, with accompanying high training costs, are often the result of the scarcity of accessible, affordable child care. The company pays for the time an employee spends calling the babysitter, worrying about the children after school, in the summer, and on school holidays. Clearly, the benefits of company-assisted programs are many and varied.


Lower Job Turnover 57%
Lower Absenteeism 72%
Improved Employee Attitudes Toward Employer 65%
Improved Employee Work Attitudes 55%
Attracted New Employees 88%
Improvement in Community Relations 36%
Increased Publicity 60%

* Working Mothers and Their Children, 1977, U.S.D.O.L., Employment Standards Administration, Women's Bureau
** U.S. Bureau of Labor Statistics, from SIE, 1976
*** Perry, K.S. Survey and Analysis of Employer-Sponsored Day Care in the United States, Doctoral Dissertation, University of Wisconsin-Milwaukee, 1978

Company Owned, Operated, and Subsidized Programs

1. The Company Owned, On-Site Model

Operation of a day care center represents an employer's maximum involvement in day care. Located at or near the work site, the facility may be operated as a division of the parent company, a subsidiary corporation or an independent nonprofit corporation. Financial support may include start-up costs, operating expenses, including administrative and maintenance costs, and subsidies for tuition. The employer may hire professional staff or sub-contract with a child care management firm. As with a company cafeteria, the day care service may be partially subsidized rather than a free program for employees.

Existing Settings

Rex Hospital, Raleigh, North Carolina

Presbyterian Hospital, Charlotte, North Carolina

Forsyth Memorial Child Care Center, Winston-Salem, North Carolina

Photo Corporation of America, Matthews, North Carolina

Playworld Child Development Center, Performance Hosiery Mills, Hildebrand, North Carolina

Stride-Rite, Boston, Massachusetts

Benefits

- Reduces absenteeism, tardiness, turnover, and training costs
- Improves worker morale
- Helps the company develop good public relations
- Helps the company recruit employees
- Properly operated, can provide high quality care at a reasonable cost
- Provides employees greater access to their children and day care teachers

2. The Off-Site Consortium Model

A group of employers may decide to share the costs and the risks of establishing a day care center. The off-site location might be centrally located either near the worksite, in a downtown business district or industrial park, or it may be located in a neighborhood in which many of the employees and their families live. The companies provide seed money for initial construction or rehabilitation of a day care facility and may offer employer assistance through representation on board of directors and through assistance in such areas as management, budget, personnel practice, fiscal analysis and legal services. Employer support may underwrite operating costs of the center and partial subsidy of tuition costs for children of employees.

Existing Settings

Control Data/Pillsbury/North States Power/Lutheran Brotherhood, Minneapolis, Minnesota

Mercy Medical Hospital/Anoka Ramsey Community College, Coon River, Michigan

Downtown Day Care Center (consortium of 14 businesses), St. Louis, Missouri

Urban Affairs Corporation Centers (consortium of 14 businesses), Houston, Texas

Benefits

- Increases availability of resources for developing a quality day care program
- Spreads costs among member employees
- Is less susceptible to underutilization because it draws children from a broader base
- Company not responsible for administration or liability
- Subsidizes tuition costs of children of low-income employees; can serve as a match to draw federal dollars on a matching basis (ratio is 25 percent private to 75 percent Title XX dollars)

Problems/Considerations

Employers considering establishment of worksite centers must weigh these benefits against questions of cost and utilization. The success rate of on-site centers established by industry between 1960 and 1974 has not been encouraging. Of 13 company-operated or supported centers identified in a 1973 U.S. Women's Bureau publication, only two remain. One has shifted to a consortium model. Company executives cited the following reasons for center closings:

Company went out of business or moved	36%	(5)
Underutilization by employees (resulting in higher costs)	29%	(4)
Too expensive	7%	(1)
Recession	7%	(1)
	100%	(11)

Underutilization by employees may be explained by parental preference for residential centers, a factor that Columbia University researcher Dr. Sheila Kamerman has identified as a key variable in industrialized countries.

The reader should not conclude, however, that the on-site day care center model has failed. In some instances – hospitals and factories with large numbers of female employees – on-site centers have been remarkably successful.

Tax Incentives

On-site day care involves capital expenditures which are not themselves tax deductible but can be depreciated or amortized. Generally, amortization permits a more rapid write-off but has limited applicability if the property is not solely used for day care purposes. In summary, federal tax law permits cost to be deducted as a business expense (Amended Internal Revenue Codes 162). Costs of acquiring, constructing and rehabilitating property and purchase of equipment can be deducted over a five-year period (Revenue Act of 1971 and Tax Reduction Act of 1975).

Problems/Considerations

- Requires full commitment and cooperation of all member companies in order to work
- May serve more community children than children of employees
- May be underenrolled because of parent preference for residential location
- Setting may have an "institutional quality"

Tax Incentives

The consortium model requires the employers to coordinate their efforts through establishment of (1) a nonprofit corporation, (2) a corporation for profit or partnership, or (3) a tax exempt organization. No tax benefits can be realized by "stockholder" members of a consortium that form a corporation since the cost of the stock is not considered a business expense or a depreciable capital expenditure. A partnership, on the other hand, can "pass through" all of its gross income, business deductions and annual depreciation to the employer-partners. Another approach that companies have used is the tax exempt organization. Any contributions to such an organization are tax free; if the day care center should make a profit, the profit would be tax free. The problem with this approach is that enrollment in the day care facility cannot be limited to children of the employees but must also be open to needy children from the community.

3. The Vendor Program

Another type of employer assistance, the vendor program, involves the purchase by the employer of a number of enrollment spaces or "slots" in one or more day care centers or homes and the subsequent resale of the spaces to employees at a reduced price. The employer may subsidize the day care cost based on the income and/or family size of the employee. This is usually referred to as a "sliding fee scale."

Existing Settings

Orlando County Community Coordinated Child Care, Orlando, Florida

Polaroid Corporation, Cambridge, Massachusetts

Benefits

- Subsidizes tuition costs of employees' children
- Can provide quality care at an affordable price for children of employees
- Does not require capital investment or start-up costs
- Does not require management or administrative responsibility
- Protects company from potential liability
- Is ideal for small companies with relatively few employees

Problems/Considerations

- If limited to a few day care programs, may not meet the needs of some families and some children
- Is less visible to the public
- May result in rewarding a few private operators and ignoring some worthy operations
- May need to reserve and guarantee payment for spaces a year ahead

4. The Voucher Program

Another creative alternative for assisting working parents is the voucher system. The voucher refers to a coupon given to the employee worth a specified amount towards the purchase of day care from any provider of service. The employer may either fully fund the day care cost or subsidize the day care cost based on the income and/or family size of the employee.

Only tuition costs are involved in this model. This program gives the full responsibility for choosing the child care arrangement to the parent. A modification of this idea used by the Ford Foundation simply increases the size of the employee's paycheck to cover the cost of day care expenses. Perhaps the term "children's allowance" is more appropriate than "voucher program" in this case.

Existing Settings

Polaroid Corporation, Cambridge, Massachusetts

Ford Foundation, New York, New York

Benefits

- Respects parent choice of day care arrangement
- Recognizes parent preference for residential setting closer to home
- Offers flexibility to employees who do not live near the worksite, who travel on public transportation, or who have very young children
- Helps parents meet rising costs of day care
- Can provide convenient day care at an affordable price
- Is useful to the employer with many small business locations scattered over a large area
- Does not require capital investment or start-up costs
- Does not require management responsibility
- Protects company from potential liability

Tax Incentives

Costs of providing day care are deductible as business expenses to the extent that they are "ordinary and necessary" expenses paid or incurred during the taxable year in carrying on any trade or business (Revenue Ruling 73-348, 1973-2 C.B. 31 under Section 162 of the Internal Revenue Code of 1954). In the cited ruling, the stated purpose of the taxpayer is to make day care available in order to (1) provide an employee with a place to send his or her children while at work knowing that the child is receiving proper care, (2) reduce absenteeism, increase productivity and reduce company training costs, and (3) reduce employee turnover.

"There is no limit on amounts you may deduct as business expenses other than that they be reasonable." (IRS Publication 535)

It is unlikely that child care for employees' children could be deductible as a charitable expense. However, if the employee usage is low enough, the employer may have an argument that child care is provided as a community service. Of course the employer could take advantage of the tax incentives in the previous section if he also buys day care for needy children not associated with his company.

Problems/Considerations

- Day care may not be available, accessible, and in ample supply
- Day care may not be available at hours that match employees' work schedules
- Voucher system requires some paperwork to be done by the company
- A sliding fee schedule based on income or family size will require additional administrative costs
- Employees must declare the value of the voucher or the child allowance as includible in gross income that is taxable by the federal government.

Tax Incentives

Although the employee must now declare the voucher as income, he can deduct child care expenses on state and federal taxes.

As with the vendor program, the voucher model provides the employer with an annual deduction for the entire cost of operation.

1. Referral: Matching Parents with Providers

The most pressing problem for working families today may be finding and selecting child care close to home with hours that match their working hours. Parents of infants find services scarce or non-existent. Parents of young handicapped children are extremely hard-pressed to find services. Summer, vacation days and after-school care are especially problematic for parents of school-age children.

A 1979 survey estimated that there are 6,390 organizations in the U.S. providing child care information and referral services. Some child care referral operations are store-front agencies affiliated with some larger organization such as YMCA or United Way but functioning independently. In some communities, several organizations pool their resources to operate a telephone answering service that gives parents information about child care providers. Of the larger general information and referral services surveyed, 47.6 percent received some funding from industry. A company may contribute to or contract with a local referral agency, join a consortium of companies that jointly underwrite administrative costs or develop an in-house capacity.

Activities involved in this model include securing and developing lists of day care providers, updating those lists, gathering specific information about each child care arrangement, printing and publishing this information in map and brochure form, answering consumer questions received by letter, telephone, and/or in person. Information may include: sources of financial assistance for child care, tax information guidelines for selecting a child care arrangement and even "provider packets" for those who would like to open a day care center or provide care in their own home. Additional services include tours of child care centers and mobile toy lending library visits to centers and family day care homes.

2. Sick Child Care

The average child in America experiences 10 days of illness each year, illness which may force the parent to either stay home from work, be late for work, or go to work feeling guilty and worried. Some companies allow parents leave days to care for sick children. Other companies allow the employee a certain number of "personal leave days" to be used as the employee sees fit.

Still other companies have supported projects that provide short-term home health care for sick children of working parents. For example, the Berkeley Sick Child Care Program sends a nurse's aid to the home to care for the sick child, freeing the parents to go to work. An added service in the Berkeley project is the "Wheezles and Sneezles Day Care Center," a short-term day care service for children who are just getting over illness, on medication, but not yet ready to return to school or regular day care.

Existing Settings

Child Care Services, Inc., Minneapolis, Minnesota

Berkeley Sick Child Care and Wheezles and Sneezles Center, Berkeley, California

Existing Settings

Duke University, Personnel Department, Durham, North Carolina
United Day Care Services, Greensboro, North Carolina
Durham Day Care Council, Totline, Durham, North Carolina
Child Care Resource Center, Cambridge, Massachusetts
Childcare Switchboard, San Francisco, California
Fairfax County Office for Children, (Fairfax Realtors), Fairfax, Virginia

Benefits

- Makes existing day care services more accessible to families
- Satisfies particular child care problems of employees
- Respects the employee's right to choose a suitable arrangement
- Is a good, visible public relations effort
- May improve quality of day care for employees' children
- May stimulate day care in communities where demand is greater than supply
- Attracts resources from other companies, public and private agencies
- Spreads costs among participating organizations

Problems/Considerations

- May lead to requests for additional services and projects
- If the referral is a consortium project, requires full commitment and cooperation of all members to work
- May serve more community children than children of employees

Tax Incentives

The cost of information and referral service for employees is considered a business deduction from state and federal taxes. Should a consortium be formed and a tax exempt nonprofit organization be established, the contribution could be considered a charitable deduction.

Benefits

- Especially helpful in reducing absenteeism and tardiness
- Improves employee work attitudes
- Reduces stress, worry and guilt associated with inappropriate care arrangements

Problems/Considerations

- Requires cooperation and coordination with other private organizations and public agencies
- May serve more community children than children of employees
- Requires trained personnel
- May be underutilized, especially in small communities

Tax Incentives

The cost of sick child care for employees' children is considered a business deduction from state and federal taxes. Should a consortium be formed and a tax exempt nonprofit organization be established, the contribution could be considered a charitable deduction.

3. Sensitive Personnel Policies

A number of employers have experimented with new personnel policies that are sensitive and responsive to the needs of working parents. Alternative work scheduling is the most popular of these approaches. Most frequently cited variations are:

- Compressed time – full-time work with more hours per day but fewer days per week
- Staggered hours – flexible regular schedule of starting and stopping times based on employee's choice
- Flextime – flexible daily starting and stopping times based on employee's choice
- Regular part-time – part-day, part-week, part-month or part-year, often involving prorated pay and benefits
- Job pairing – two or more people jointly responsible for completion of a full-time job
- Variable working hours – employee contracts for a given block of work and has the option of choosing hours to complete the work
- Task contracting – employee is responsible for completion of a given task and need not specify the number of hours or the particular hours worked

In addition to the flexiole work scheduling, other personnel policies help working parents reconcile work and family responsibilities. Most prevalent of these policies is the employee assistance program, which offers counseling and support for workers experiencing family problems. Many companies offer alcoholism counseling. Other policies include extension of sick leave to cover serious illness of a child, reduced use of frequent transfers within the corporate network, and more extensive maternity or paternity leave policies. Finally, some businesses have adopted a fringe benefit package that is called the "cafeteria plan," which allows employees to choose which benefits best meet their own needs.

Existing Settings

IBM, Research Triangle Park, North Carolina
Levi Strauss Corporation, Greensboro, North Carolina
Control Data, Minneapolis, Minnesota
Equitable Life Insurance, New York, New York
Honeywell, Minneapolis, Minnesota

Benefits

- Alternative work scheduling reduces company's overtime expenditures
- Stabilizes safety, turnover and absenteeism levels
- Provides opportunity for part-time people to work full-time
- Provides opportunity for mothers of school-age children to work and care for children
- Provides work opportunity for students who need an income in order to stay in school

Problems/Considerations

- Difficulties in supervising large groups of employees who work at different times
- Difficulties in administering lost-time pay policies
- Difficulties for employees in arranging car-pooling
- Possibility of abuse by some employees
- Possibility of the benefit being taxable as part of gross income

Tax Incentives

Costs of employee benefits are, of course, deductible from state and federal taxes as ordinary and necessary business expenses. Another possible way for an employer to help employees and their families would be to set up a voluntary employees' beneficiary association. Internal Revenue Code Section 501(c)(9) recognizes that a voluntary employees' beneficiary association that provides benefits to workers and their families is exempt from taxation.

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